

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)	
ARTESIAN WATER COMPANY, INC., FOR)	
APPROVAL PURSUANT TO 26 <i>DEL. C.</i> § 215)	PSC DOCKET NO. 20-0208
TO ENTER INTO A LONG-TERM DEBT)	
OBLIGATION)	
(FILED MARCH 9, 2020))	

ORDER NO. 9565

AND NOW, this 1st day of April 2020, the Delaware Public Service Commission (“Commission”) determines and orders the following:

WHEREAS, on March 9, 2020, Artesian Water Company, Inc. (“Artesian”) filed an application ("Application") with the Commission pursuant to 26 *Del. C.* § 215(a)(2), requesting approval of the issuance of three (3) long-term debt obligations with the Delaware Drinking Water State Revolving Fund in the principal amounts of up to \$1,700,000, \$1,330,000, and \$1,035,000 with a fixed interest rate for each of 1.187% and each with a term of 20 years (the “SRF Loans”), and authority to defer all issuance costs, expected to be approximately \$75,000, for review in its next rate application; and

WHEREAS, the Application states that Artesian intends to replace all existing water mains, services, valves, and fire hydrants in the developments of Coventry, Wilmington Manor, and Marshallton Heights in New Castle County, Delaware. Artesian will initially finance these capital projects using its short-term lines of credit. Artesian will then draw down and use the SRF Loan proceeds to retire its short-term lines of credit. The SRF Loans will be issued as follows:

a. Pursuant to general obligation note Series 2020A-SRF, Artesian will enter into a long-term debt obligation with the Fund in order to finance capital improvements to its water distribution system, specifically the replacement of failing older mains located at the Coventry

subdivision in New Castle County, Delaware. The Series 2020A-SRF note will be in the principal amount of up to \$1,700,000. Artesian will be obligated to pay principal and interest on the note as prescribed in the Binding Commitment Letter, a copy of which is attached as Exhibit A.

b. Pursuant to general obligation note Series 2020B-SRF, Artesian will enter into a long-term debt obligation with the Fund in order to finance capital improvements to its water distribution system, specifically the replacement of failing older mains located at the Wilmington Manor subdivision in New Castle County, Delaware. The Series 2020B-SRF note will be in the principal amount of up to \$1,330,000. Artesian will be obligated to pay principal and interest on the note as prescribed in the Binding Commitment Letter, a copy of which is attached as Exhibit B.

c. Pursuant to general obligation note Series 2020C-SRF, Artesian will enter into a long-term debt obligation with the Fund in order to finance capital improvements to its water distribution system, specifically the replacement of failing older mains located at the Marshallton Heights subdivision in New Castle County, Delaware. The Series 2020C-SRF note will be in the principal amount of up to \$1,035,000. Artesian will be obligated to pay principal and interest on the note as prescribed in the Binding Commitment Letter, a copy of which is attached as Exhibit C.

and;

WHEREAS, Artesian states that its financial strategy was to obtain long-term financing at favorable rates. The SRF Loans will satisfy Artesian's long term goals by financing at a favorable period of 20 years at 1.187% interest rate; and

WHEREAS, Staff has reviewed the Application for compliance with the requirements of 26 *Del. C.* § 215 and 26 *Del. Admin C.* § 1002 - Part D and submits that it is in accordance

with law, for a proper purpose, and consistent with the public interest. Staff also states that it believes the financing portion of the Application complies with 26 *Del. C.* § 215 and warrants Commission approval. Lastly, Staff recommends that within thirty (30) days of the Commission's approving the Application, Artesian shall file the Opinion of Counsel, the SRF Loan agreements and any material change to the financing under the SRF Loan; and

WHEREAS, the Commission, after considering Staff's memorandum which is incorporated herein by reference, determines that Artesian's proposed issuance of a long-term debt obligation is in accordance with law, for a proper purpose, and consistent with the public interest;

**NOW, THEREFORE, IT IS HEREBY ORDERED BY THE AFFIRMATIVE
VOTE OF NO FEWER THAN THREE COMMISSIONERS:**

1. Artesian's Application for the issuance of three (3) long-term debt obligations in the principal amounts of up to \$1,700,000, \$1,330,000, and \$1,035,000 with a fixed interest rate for each of 1.187% and each having a term of 20 years is hereby approved.
2. The Commission approves Artesian's request for deferred accounting treatment to record all issuance costs, expected to be approximately \$75,000 for review during the Company's next rate application along with its cost of capital calculations.
3. Artesian is hereby authorized to execute documents and instruments necessary and appropriate in conjunction with the issuance of the long-term debt obligation to the Delaware Drinking Water State Revolving Fund (by and through the Delaware Department of Health and Human Services) in order to finance the improvements to Artesian's system.
4. Artesian shall file with this Commission within thirty (30) days of the date of closing of the SRF Loan, the Opinion of Counsel, the SRF Loan agreements, and shall notify Staff of any material change to the financing under the SRF Loan.

5. The Commission's approval shall not be construed as approval or authorization of any particular ratemaking treatment of the financing requested. The Commission will determine the appropriate ratemaking treatment of the financing in Artesian's next base rate case.

6. The Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Chairman

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary



STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES &
ENVIRONMENTAL CONTROL
OFFICE OF THE SECRETARY
ENTERPRISE BUSINESS PARK
97 COMMERCE WAY, SUITE 106
DOVER, DELAWARE 19904

ENVIRONMENTAL FINANCE

TELEPHONE: (302) 739-9941
FAX: (302) 739-2137

March 3, 2020

Artesian Water Company, Inc.
Attn: Mr. David B. Spacht
Chief Financial Officer & Treasurer
664 Churchmans Road
Newark, DE 19702

RE: Delaware Drinking Water State Revolving Fund Binding Commitment Letter Offer
Artesian Water Company, Inc. – Coventry Water Main Renewal Project

Dear Mr. Spacht:

On behalf of the Delaware Drinking Water State Revolving Fund (Fund), the Department of Health and Social Services (Department) is pleased to advise you that a Loan (Loan) has been authorized from the Fund to Artesian Water Company, Inc. (Artesian) in the amount of **\$1,700,000** for a term of **twenty (20) years**. This project will address the failing and older water mains located in the Coventry development. The project consists of the installation of approximately 4,100 linear feet of ductile iron water main. All existing water mains will be abandoned and all water services will be replaced along with valves and fire hydrants (Project).

The loan interest rate shall be **1.187%**, Artesian will pay semi-annual interest only payments during the period commencing with the date of Closing (Closing) on the Loan through and including the payment date following the date on which the Project is actually completed based on cumulative loan draws. After the Project has been completed, Artesian shall pay semi-annual payments of principal and interest sufficient to amortize the loan over twenty years.

It is understood that a General Obligation Bond Pledge of Artesian will secure the Loan. All legal costs, incurred by the Fund, associated with loan closing shall be borne by Artesian and will become a part of loan proceeds.

The Fund reserves the right to withdraw or alter the terms of this commitment if, between the date of Artesian's loan application and the date of the closing, Artesian incurs any debt or its financial condition changes in any way deemed material by the Fund at its sole discretion. Loan closing and the disbursement of funds shall remain subject to the satisfaction of any conditions established by the Fund.

Artesian shall comply in all respects with all applicable Fund requirements and reporting, federal laws, regulations and other requirements related to or arising out of, or

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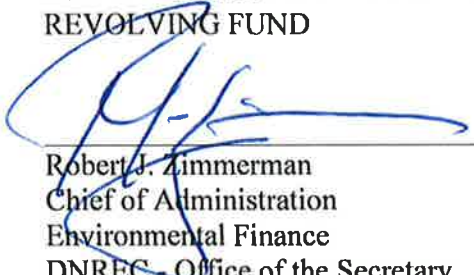
March 3, 2020
DWSRF Binding Commitment Letter
Coventry Water Main Renewal Project
Page | 2

in connection with funding by the Fund. Artesian shall also comply in all respects with the Federal Single Audit Act, 2 CFR 200 Subpart F, (formerly OMB Circular A-133) as a sub-recipient of Federal funds. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is 66.458. Where noncompliance of such requirements is determined by the Fund or the Department, the issue shall be referred to the proper federal authority and/or agency for consultation and/or enforcement action.

If you have any questions concerning the foregoing, please contact this office at (302) 739-9941. If you concur with the terms and conditions stated above, please acknowledge your acceptance by signing below and returning the original to this office no later than **April 30, 2020**.

If Loan closing shall not have occurred within 120 days of receipt of this letter, the Fund reserves the right to discontinue processing the Artesian's application.

Sincerely,
FOR THE DELAWARE DRINKING WATER STATE
REVOLVING FUND



Robert J. Zimmerman
Chief of Administration
Environmental Finance
DNREC - Office of the Secretary

The foregoing terms and conditions are hereby acknowledged and accepted this 9th day of March, 2020.



By: _____
Mr. David B. Spacht
Chief Financial Officer & Treasurer

cc: Dr. Karyl Rattay, DHSS-DPH
Jamie Mack, DHSS-DPH
Heather Warren, DHSS-DPH
Eric Dawson, DNREC



STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES &
ENVIRONMENTAL CONTROL
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97 COMMERCE WAY, SUITE 106
DOVER, DELAWARE 19904

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March 3, 2020

Artesian Water Company, Inc.
Attn: Mr. David B. Spacht
Chief Financial Officer & Treasurer
664 Churchmans Road
Newark, DE 19702

RE: Delaware Drinking Water State Revolving Fund Binding Commitment Letter Offer
Artesian Water Company, Inc. – Wilmington Manor Water Main Renewal Project

Dear Mr. Spacht:

On behalf of the Delaware Drinking Water State Revolving Fund (Fund), the Department of Health and Social Services (Department) is pleased to advise you that a Loan (Loan) has been authorized from the Fund to Artesian Water Company, Inc. (Artesian) in the amount of **\$1,330,000** for a term of **twenty (20) years**. The Loan will be used to address the failing and older water mains located in the Wilmington Manor development. The project consists of the installation of approximately 3,535 linear feet of ductile iron water main. All existing water mains will be abandoned and all water services will be replaced along with valves and fire hydrants (Project).

The loan interest rate shall be **1.187%**. Artesian will pay semi-annual interest only payments during the period commencing with the date of Closing (Closing) on the Loan through and including the payment date following the date on which the Project is actually completed based on cumulative loan draws. After the Project has been completed, Artesian shall pay semi-annual payments of principal and interest sufficient to amortize the loan over twenty years.

It is understood that a General Obligation Bond Pledge of Artesian will secure the Loan. All legal costs, incurred by the Fund, associated with loan closing shall be borne by Artesian and will become a part of loan proceeds.

The Fund reserves the right to withdraw or alter the terms of this commitment if, between the date of Artesian's loan application and the date of the closing, Artesian incurs any debt or its financial condition changes in any way deemed material by the Fund at its sole discretion. Loan closing and the disbursement of funds shall remain subject to the satisfaction of any conditions established by the Fund.

Delaware's Good Nature Depends on You!

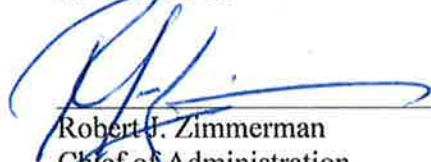
March 3, 2020
DWSRF Binding Commitment Letter
Wilmington Manor Water Main Renewal Project
Page | 2

Artesian shall comply in all respects with all applicable Fund requirements and reporting, federal laws, regulations and other requirements related to or arising out of, or in connection with funding by the Fund. Artesian shall also comply in all respects with the Federal Single Audit Act, 2 CFR 200 Subpart F, (formerly OMB Circular A-133) as a sub-recipient of Federal funds. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is 66.458. Where noncompliance of such requirements is determined by the Fund or the Department, the issue shall be referred to the proper federal authority and/or agency for consultation and/or enforcement action.

If you have any questions concerning the foregoing, please contact this office at (302) 739-9941. If you concur with the terms and conditions stated above, please acknowledge your acceptance by signing below and returning the original to this office no later than **April 30, 2020**.

If Loan closing shall not have occurred within 120 days of receipt of this letter, the Fund reserves the right to discontinue processing the Artesian's application.

Sincerely,
FOR THE DELAWARE DRINKING WATER STATE
REVOLVING FUND



Robert J. Zimmerman
Chief of Administration
Environmental Finance
DNREC - Office of the Secretary

The foregoing terms and conditions are hereby acknowledged and accepted this 9th day of MARCH, 2020.



By: _____
Mr. David B. Spacht
Chief Financial Officer & Treasurer

cc: Dr. Karyl Rattay, DHSS-DPH
Jamie Mack, DHSS-DPH
Heather Warren, DHSS-DPH
Eric Dawson, DNREC



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March 3, 2020

Artesian Water Company, Inc.
Attn: Mr. David B. Spacht
Chief Financial Officer & Treasurer
664 Churchmans Road
Newark, DE 19702

RE: Delaware Drinking Water State Revolving Fund Binding Commitment Letter Offer
Artesian Water Company, Inc. – Marshallton Heights Water Main Renewal Project

Dear Mr. Spacht:

On behalf of the Delaware Drinking Water State Revolving Fund (Fund), the Department of Health and Social Services (Department) is pleased to advise you that a Loan (Loan) has been authorized from the Fund to Artesian Water Company, Inc. (Artesian) in the amount of **\$1,035,000** for a term of **twenty (20) years**. This project will address the failing and older water mains located in the Marshallton Heights development. The project consists of the installation of approximately 2,900 linear feet of ductile iron water main. All existing water mains will be abandoned and all water services will be replaced along with valves and fire hydrants (Project).

The loan interest rate shall be **1.187%**, Artesian will pay semi-annual interest only payments during the period commencing with the date of Closing (Closing) on the Loan through and including the payment date following the date on which the Project is actually completed based on cumulative loan draws. After the Project has been completed, Artesian shall pay semi-annual payments of principal and interest sufficient to amortize the loan over twenty years.

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The Fund reserves the right to withdraw or alter the terms of this commitment if, between the date of Artesian's loan application and the date of the closing, Artesian incurs any debt or its financial condition changes in any way deemed material by the Fund at its sole discretion. Loan closing and the disbursement of funds shall remain subject to the satisfaction of any conditions established by the Fund.

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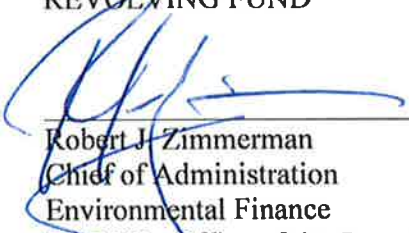
March 3, 2020
DWSRF Binding Commitment Letter
Marshallton Heights Water Main Renewal Project
Page | 2

in connection with funding by the Fund. Artesian shall also comply in all respects with the Federal Single Audit Act, 2 CFR 200 Subpart F, (formerly OMB Circular A-133) as a sub-recipient of Federal funds. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is 66.458. Where noncompliance of such requirements is determined by the Fund or the Department, the issue shall be referred to the proper federal authority and/or agency for consultation and/or enforcement action.

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If Loan closing shall not have occurred within 120 days of receipt of this letter, the Fund reserves the right to discontinue processing the Artesian's application.

Sincerely,
FOR THE DELAWARE DRINKING WATER STATE
REVOLVING FUND



Robert J. Zimmerman
Chief of Administration
Environmental Finance
DNREC - Office of the Secretary

The foregoing terms and conditions are hereby acknowledged and accepted this 4th day of March, 2020.



By: _____
Mr. David B. Spacht
Chief Financial Officer & Treasurer

cc: Dr. Karyl Rattay, DHSS-DPH
Jamie Mack, DHSS-DPH
Heather Warren, DHSS-DPH
Eric Dawson, DNREC

EXHIBIT F

SCHEDULE NO. 1
ARTESIAN WATER COMPANY, INC.
CAPITALIZATION RATIOS ACTUAL AND PRO FORMA
AS OF DECEMBER 31, 2019

Line #	Type of Capital	Before Issuance		Pro Forma Adjustment \$	After Issuance	
		Amount Outstanding	% of Total		Amount Outstanding	% of Total
1	<u>Common Equity</u>					
2	Common Stock	\$ 1,000		-	\$ 1,000	
3	Paid-in Capital	79,257,479		-	79,257,479	
4	Retained Earnings	45,908,906		-	45,908,906	
5	Total Common Equity	125,167,385	48.3%	-	125,167,385	47.5%
6	<u>Preferred Stock</u>	-	0.0%	-	-	0.0%
7	<u>Long-Term Debt</u>					
8	First mortgage bonds (including current portion)	\$ 128,400,000		-	\$ 128,400,000	
9	Long-term notes	-		-	-	
10	Other long-term debt (including current portion)	5,814,088		4,065,000	9,879,088	
11	Total Long-Term Debt	134,214,088	51.7%	4,065,000	138,279,088	52.5%
12	Total Permanent Capital	259,381,473	100.0%	4,065,000	263,446,473	100.0%
13	<u>Short-Term Debt</u>	-	0.0%	-	-	
14	Total Capitalization	\$ 259,381,473	100.0%	4,065,000	\$ 263,446,473	100.0%

NOTE 1: The Capitalization figures presented as "before issuance" are actual balances as of December 31, 2019. Projected revenues and expenses for the ensuing twelve months have not been included as part of Retained Earnings.

SCHEDULE NO. 2
ARTESIAN WATER COMPANY, INC.
CALCULATION OF RETURN ON AVERAGE COMMON EQUITY
FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2019

HISTORICAL TWELVE MONTHS

4

LINE NO.	<u>STATEMENT OF INCOME</u>	<u>BEFORE ISSUANCE</u>	<u>PRO FORMA ADJSTMNT</u>	<u>AFTER ISSUANCE</u>
1	Operating revenues	73,538,137	\$ -	73,538,137
2	Operating expenses before income taxes	50,669,557	-	50,669,557
3	Income taxes (including deferrals)	4,486,785	(13,449) ¹	4,473,336
4	Operating income (1-(2+3))	18,381,795	13,449	18,395,244
5	AFUDC (Equity only)	421,898		421,898
6	Other income, net	(181,930)	-	(181,930)
7	Income before interest charges (4+5+6)	18,621,763	13,449	18,635,212
8	Interest charges (including debt portion of AFUDC)	5,231,601	48,252 ²	5,279,853
9	Net income (7-8)	13,390,162	(34,803)	13,355,359
10	Preferred stock dividends	-		-
11	Earnings available to common equity (9-10)	13,390,162	(34,803)	13,355,359
12	Average capitalization	259,381,473	4,065,000 ³	263,446,473
13	Average common equity	125,167,385	-	125,167,385
14	Return on average capitalization (7/12)	7.18%		7.07%
15	Return on average common equity (11/13)	10.70%		10.67%

1. Current federal and state tax effect (at 27.873%) (13,449)

2. Interest Adjustment (\$4,065,000 x 1.187%) 48,252

3. Total SRF Issuance 4,065,000

4. Historical twelve months equivalent to annualized twelve months.

SCHEDULE NO. 3
ARTESIAN WATER COMPANY, INC.
FIXED CHARGE COVERAGE RATIOS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019

HISTORICAL
TWELVE MONTHS

	<u>Before</u> <u>Issuance</u>	<u>After</u> <u>Issuance</u>
--	--	---

Per Financial Statements

Before Income Taxes, all interest (Lines (1-2+6)/Line 8)	4.34	4.30
After Income Taxes, all interest (Line 7/Line 8)	3.56	3.53
Overall Coverage, after income taxes (Line 7/Line 8+10)	3.56	3.53

Note: Descriptions in parentheses refer to line number on Schedule 2, attached which we calculate the ratios.

